

CAPE LIGHT COMPACT

DEFAULT SERVICE PILOT PROJECT

BACKGROUND

The Cape Light Compact was formed in 1997 through an intergovernmental agreement of twenty-one towns and two counties and is engaged in competitive power supply, energy efficiency and consumer advocacy. Of the 187,000 customers in the twenty-one member towns, approximately 42,000 residential, commercial and governmental customers are currently enrolled in Default Service. The Compact has planned the Default Service Pilot Project (the “Pilot”) described herein as a retail program to provide choice and savings for Default Service customers. In addition, the Pilot will provide a stepping-stone for service to other customers in the Compact aggregation, and offer important benefits for a competitive market in the Commonwealth.

The Pilot will be based upon the Compact’s approved Aggregation Plan, a copy of which is attached hereto as Attachment 1. Substantial review of the Compact Aggregation Plan has already taken place. As required by state law, the Compact developed its Aggregation Plan in collaboration with, and the approval of, DOER. DTE subsequently reviewed and approved the Aggregation Plan on August 10, 2000. (DTE 00-47.) Initiation of the Plan and delivery of power supply has been delayed due to below-market prices for Standard Offer customers. Standard Offer customers will not be served until a cross-over point with competitive pricing is reached in the market. However, with recent increases in Default Service pricing and changes in the wholesale market, a cross-over point in pricing *has* been reached for Default Service customers and savings are available to consumers in a municipal aggregation program through competitive supply.

While increased market options are emerging for medium and large commercial and industrial Default Service customers, small commercial and residential Default Service customers have few, if any, opportunities for competitive service. Municipal aggregation reduces transaction and transition costs for small customers and makes them more attractive to suppliers. The Pilot will provide small commercial and residential Default Service consumers, as well as medium and large commercial customers, with a new opportunity for savings.

While the Pilot will be conducted under the terms of the Aggregation Plan, there is one key difference. Universal service under the Pilot will apply only to all classes of Default Service customers. The Pilot will not apply to Standard Offer customers due to the condition of Standard Offer pricing remaining below market pricing. This variation is not inconsistent with the law. Specific requirements for municipal aggregation contained in G.L. c. 164, § 134 for universal access are clearly relaxed by the broad latitude provided to DTE and DOER to establish pilot projects for municipal aggregators under Section 339. The General Court recognized the need for flexibility by providing that: “[n]otwithstanding any general or special law, rule, or regulation to the contrary, the department of telecommunications and energy and the division of energy resources shall establish a pilot program to implement the provisions of section 134 of chapter 164 of the General Laws.”

Starting a pilot project with universal service for Default Service customers through a municipal aggregation is entirely consistent with the spirit of the Restructuring Act which was enacted to provide economic and other benefits for consumers. It is also a pragmatic method to implement a municipal aggregation program with a smaller group of customers to gain experience in the notification, transfer, enrollment and service process in order to prepare for service to a larger group.

In addition to the opportunities and benefits for Default Service customers, the Pilot Project will result in highly valuable information and experience for: (i) suppliers seeking to provide service to large aggregated groups; (ii) local distribution companies providing customer transfer and service to large aggregated groups; (iii) other local governments examining municipal aggregation; and (iv) state policy makers and legislators.

Contingent upon receiving timely approval from the Department and executing a power supply agreement, the Compact is prepared to initiate competitive supply for approximately 42,000 Default Service customers for a fifteen (15) month period starting January 1, 2002.¹

DESCRIPTION OF THE DEFAULT SERVICE PILOT PROJECT

The key features of the Pilot Project are:

1. Participation:

All Default Service customers in the twenty-one Compact member communities will have an opportunity to participate in the program. Consistent with the Aggregation Plan, all existing consumers on Default Service will be automatically enrolled and will be given an opportunity to opt-out and remain on Default Service or choose another supplier. All new customers initiating service in Compact member towns after the start-up enrollment, who would otherwise be enrolled in Default Service, will also be automatically enrolled and will be given an opportunity to opt-out.

The steps for enrollment, notification and opt-out have been previously outlined in the approved Aggregation Plan and are described below in “Steps for Initiation of Default Service Pilot Project.”

2. Power Supply:

Unless current market conditions change, power supply will be for the fifteen month period of January 1, 2002 to March 31, 2003. Following Department approval of the Pilot Project, the Compact will execute an agreement with the supplier for this period, or a longer period if such supply is available on terms that provide consumer savings.

¹ Suppliers have currently expressed concern about uncertainties of congestion pricing beyond March 31, 2003, creating reluctance to provide pricing beyond that period at this time.

3. Extension of Power Supply and Expansion of Service to Standard Offer Customers:

Based on the success of the Pilot, the Compact will seek to extend and expand competitive supply. The Compact will seek an extension to the Pilot supply agreement, or a new power supply contract, prior to the term of Pilot supply agreement expiration and following review by DOER and approval by the DTE. During the period of the supply agreement to the Pilot, the Compact will also examine market opportunities to expand competitive supply to Standard Offer customers. Start-up of service for Standard Offer customers will occur at the time of price crossover between the tariffed Standard Offer Price and the competitive market price. Supply to the Pilot Project will not interfere with a separate Electric Supply Agreement currently in place with Select Energy, Inc. for supply to all Compact customers, which remains on hold due to below-market prices of the Standard Offer. According to the terms of the existing Electric Supply Agreement and current practice, Select Energy, Inc. will continue to notify the Compact every one hundred (100) days regarding whether market conditions are such that supply can begin for Standard Offer customers. Electric Supply Agreement, Exhibit A.

4. Termination:

Consistent with the Aggregation Plan, individual customers may terminate participation by opting-out and returning to Default Service, or contracting with a competitive supplier; and the program may be terminated (i) through breach of the supply agreement, (ii) failure to renew the power supply agreement or acquire a new supply contract, or (iii) determination of the Compact Governing Board to dissolve the program. In any case in which the program is being terminated, consumers would receive a notice ninety (90) days prior to program termination. These customers would return to Default Service or choose another supplier.

5. Pilot Project Oversight:

Consistent with the Aggregation Plan, the Cape Light Compact Governing Board, supported by its power supply committee and technical and legal team, will provide oversight for the Pilot. Reporting for the Pilot will be made to both DTE and DOER.

6. Pilot Project Report:

As part of the Pilot, the Compact will file a report with DTE and DOER outlining the experience, information, data and lessons learned on key market issues. The report will address transaction costs, transition costs and the transition process for a large group of customers, the notification and opt-out process and resulting experience and lessons, common consumer questions and answers, and service problems and resolution of those problems. As noted above, this information will be extremely useful for: (i) expansion of the Compact power supply to the full aggregation; (ii) other municipalities in the Commonwealth interested in pursuing municipal aggregation; (iii) suppliers interested in providing service to such aggregations; and (iv) state regulators and policy-makers.

STEPS FOR INITIATION OF DEFAULT SERVICE PILOT PROJECT

The steps for initiation of the Default Service Pilot Project are listed below:

1. Expedited Approval of Default Service Pilot Project Plan:

As noted above, DTE and DOER have authority to establish pilot projects for municipal aggregators. Careful and extensive review has been made for the Aggregation Plan which is the basis for the Pilot and the Department's Order in docket DTE 00-47 reflects that analysis. The Compact believes an adjudicated proceeding on this matter would add unnecessary costs and delay that could produce additional market costs or lost opportunities. Therefore, the Compact seeks expedited approval within 60 days of submission of this Pilot Plan.

2. Execution of a Power Supply Agreement:

Following establishment of the Pilot, the Compact will execute a supply agreement. The Compact expects to submit a form of power supply agreement by October 10, 2001 and anticipates executing a finalized power supply agreement by October 31, 2001 based upon a review of NSTAR's benchmark prices and market conditions at that time.

3. Notification of customers:

As provided in the approved Aggregation Plan, the Compact will use the following measures: (i) opt-out notice mailing; (ii) newspaper notices; (iii) public service announcements; (iv) posting of notice in town halls; and (v) notification of customers on their last bill that new service will be initiated by the Compact supplier. (Also see descriptions of call center and implementation of an education program below.)

4. Notification of Commonwealth Electric:

Along with notification of consumers, the Compact will provide timely notice to Commonwealth Electric to begin preparation of the administrative process to transfer Default Service customers consistent with each customer's billing cycle.

5. Enrollment and Customer transfer as prescribed by the Aggregation Plan:

This is an administrative process with three parts: (i) Data Preparation -- Commonwealth Electric will identify all customers on Default Service in the Compact member communities; (ii) Data Verification -- to the extent needed, if not inherent in the data preparation, Commonwealth Electric will check customer account numbers and other codes to verify proper customer identification for enrollment purposes; and (iii) Automatic Enrollment -- all verified customers shall be transferred to the Compact supplier, unless the customer has previously sent in its notification to opt-out according to established deadlines.

6. Service start up consistent with Billing Cycle Dates:

Consumers are billed monthly on a twenty-one (21) day cycle, which according to Commonwealth Electric begins on the Outer Cape and proceeds up the peninsula to the Upper Cape. Service start-up will be staggered as each customer ends their normal billing cycle, unless a customer requests a meter read and start-up for a certain date (for which they will have to pay the approved charge.)

7. Opt-Out Opportunities:

On or before December 7, 2001, and without penalty, every customer will have an opportunity to opt-out of the Pilot and remain on Default Service, or choose another competitive supplier. The opt-out notice shall: (i) inform customers they have the right to opt-out; (ii) prominently state all charges to be made and a comparison of the price and primary terms to Default Service; (iii) explain how to opt-out and state how to access Default Service; (iv) provide notice if any charges associated with the opt-out will be made by the supplier. The opt-out notice shall be mailed prior to the start of enrollment. For a period of 180 days subsequent to enrollment, and without penalty, the customer shall have an opportunity to opt-out and return to Default Service. After the 180 day period, the customer shall also have an opportunity to opt-out and return to Default Service or a new competitive supplier based on the terms of the supply contract.

New customers who would otherwise be placed on Default Service will be automatically enrolled in the Pilot and also will receive an opportunity to opt-out within 180 days, and without penalty, from the commencement of the billing cycle.

CONSUMER EDUCATION AND CUSTOMER TRANSITION

The Compact places a high value on providing public information and will focus on consumer education both prior to and after customer enrollment. To support the process of customer notification, transfer and enrollment, the Supplier will establish a call center from its

consumer care unit to address questions on the service under the Default Service Pilot Project. The telephone number for the call center will be publicized in a public education program and provided to each customer to be enrolled during the notification process. The Compact will work cooperatively with the supplier to develop the script for training call center operators and will assist in helping to resolve any special customer problems.

In addition to the call center and as part of the notification process, the Compact will implement an education program aimed at providing public information on the Default Service Pilot Project. This information will be provided in the media, through brochures, through governmental and other public meetings, and on the Compact's website.

To assure a smooth transition between NSTAR Default Service supply and the Compact's competitive supply, the Compact will work with NSTAR and the competitive supplier to protect customers. Establishment of a timely benchmark price for NSTAR Default Service customers will be important (anticipated by October 15, 2001 according to recent discussions with NSTAR).

TIME LINE FOR START UP OF THE PILOT PROJECT

Time is of the essence for establishment of the Default Service Pilot Project. Delay of the Pilot start-up beyond January 1, 2002 can diminish or eliminate the opportunity to establish the Pilot and provide benefits. Market conditions can change requiring premiums to hold prices. Penalties can be added for leaving Default Service in the middle of a six month supply term, as kWh charge adjustments are recalculated on a monthly basis. As a result, delay to a new start up term of July 1, 2002 to avoid such penalties could leave the Pilot with only nine months of supply (due to supplier concerns over uncertainties of congestion pricing). Such a shortened term would likely delay start-up further.

For a January 1, 2002 start-up there are also operational considerations related to notification of customers and the opt-out process, as well as supplier scheduling of power supply.

The Compact has therefore requested an expedited process for approval. The key items in the time line are:

Submission of proposal to DTE and DOER	August 15
Submission of Power Supply Form of Contract to DOER and DTE	October 10
DTE Approval	October 15
Supply Contract Finalized	October 31
Notification of Commonwealth Electric	November 1
Preparation of mailing lists, notification letters, and public information	November 1-12
Notification Mailed to Customers	November 14
(start of multi-step process, call center and public education)	
Deadline for pre-Service Opt-Out	December 7
Opt-outs removed from Enrollment Lists	December 10-14
EDI Enrollment	December 14
Service Initiation	January 1, 2002
	(all customers in January)

SUMMARY

The Cape Light Compact's Default Service Pilot Project offers a sound approach to bringing large groups of small consumers into the competitive market. It provides an incremental approach to market development that will generate valuable information, data, and experience. It is based on an Aggregation Plan that has already been carefully reviewed and approved by DTE and DOER. In essence, it is a phase-in of customer service that prepares for expansion into a larger, permanent aggregation program. The DTE and DOER have the authority to establish the Default Service Pilot Project. The Compact seeks approval on an expedited basis in order to move ahead with implementation and avoid additional costs or delays that may undermine or eliminate the opportunity to set the program in place.